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**HF 2139** – Higher Education Tuition Income Tax Deduction (LSB 5063YH)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New  
Requested by Rep. Beth Wessel-Kroeschell

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**Description**

**House File 2139** creates a new Iowa income tax deduction for qualified tuition and related expenses of postsecondary education to the extent not otherwise deductible under federal law. The new deduction does not have amount or income limits.

Qualified tuition and related expenses include the tuition and fees required for enrollment and attendance at an eligible educational institution. Eligible educational institutions generally include all accredited public, nonprofit, and for-profit postsecondary institutions that are eligible to participate in a federal financial aid program.

Taxpayers are allowed to deduct the expenses of the taxpayer, the taxpayer's spouse, and the taxpayer's dependents. Taxpayers claimed as dependents on another tax return are not eligible for the deduction.

The new deduction is effective retroactive to January 1, 2014 (tax year 2014).

**Assumptions**

- Postsecondary education expenses are estimated primarily by using data from the federal tuition and related expense deduction available previously (available tax year 2008 through 2013) and tax year 2012 federal claims for education tax credits.
- Using the federal tuition deduction and credit claim information of Iowa taxpayers, the Department of Revenue estimates that 161,000 Iowa tax returns will benefit from the new deduction, and the average deduction will equal \$7,065 per benefited tax return. The \$7,065 average includes an adjustment for tuition expenses paid through scholarships and existing tax-benefited programs such as College Savings Iowa.
- The Department of Revenue utilized their income tax micro-simulation model to estimate the tax revenue impact of the proposed deduction.
- The conversion of tax year model results to fiscal year General Fund revenue impacts was completed based on historical patterns of withholding, estimates, final returns, and refunds.
- The new tax deduction reduces taxable income, and also reduces the statewide yield from the local option income surtax for schools. The surtax reduction is estimated to equal 3.5% of the net General Fund impact.

**Fiscal Impact**

The new tax deduction created in this Bill is projected to reduce net General Fund revenue by the following amounts:

- FY 2014 = \$ 0.6 million
- FY 2015 = \$59.6 million
- FY 2016 = \$60.0 million
- FY 2017 = \$61.8 million
- FY 2018 = \$63.7 million

Going forward, the impact will grow in line with increases in postsecondary tuition. In addition to the State General Fund impact, the new deduction will decrease the revenue produced by the local option income surtax for schools by \$2.1 million per year, beginning FY 2015.

**Source**

Department of Revenue

/s/ Holly M. Lyons

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March 18, 2014

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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